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CENTRAL INTELLIGENCE AGENCY

INTELLIGENCE MEMORANDUM NO. 332

20 September 1950

SUBJECT: Current Iranian Problems

The Iranian Government is finding it increasingly difficult to adhere firmly to its pro-Western policy. In aligning itself with the West, Iran had hoped to receive aid comparable to that given Greece and Turkey. Having failed to receive such aid, the Iranians are skeptical of Western intentions and question the wisdom of maintaining their pro-Western alignment. They are, instead, inclined to listen to the "friendly" Soviet protestations which characterize the current attitude of the USSR toward Iran. This attitude is manifest in the Soviet release of captured Iranian soldiers and in the wish to negotiate such important matters as a trade agreement, frontier disputes, and the return of Iranian gold and dollars held in Moscow. The USSR thus appears eager to make arrangements which would sharply point up Soviet willingness to help Iran, and the Iranians feel that a suitable response to the Soviet approach may lessen the likelihood of direct intervention by the USSR.

Prime Minister Razmara, who strongly favors alignment with the West, is faced with a dilemma. He is keenly aware of the dangers involved in dealing with the USSR and doubtless realizes that current Soviet "friendliness" may be little more than a blind to obscure the real designs of the USSR, particularly since Soviet radio propaganda continues to attack the Shah and the government, calls on the Kurds and the Azerbaijanis to revolt, and encourages the illegal Tudeh Party. Nevertheless, in the absence of prompt and adequate US aid, Razmara fears that if he fails to consider the Soviet proposals, popular dissatisfaction and economic distress may make his position untenable.

Although Razmara is undoubtedly the man most competent to deal with Iran's basic problems, he has been able to make only limited progress since assuming the premiership in June in halting the general economic decline which began in Iran at the end of World War II.

Note: This paper was undertaken in response to an NSRB request for a concise reappraisals of the highlights of the current situation in Iran.

It has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and the Air Force.

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Iran appears to have the resources necessary to put its house in order, but a succession of weak governments and a pervasive sense of frustration in the country at large have effectively militated against recovery. Today Iran's financial means are insufficient to cover both the normal budget and the sorely needed economic and social improvements provided for in the \$650-million Seven Year Development Program.

Razmara has been unable to obtain more favorable terms from the Anglo-Iranian Oil Company in regard to the supplementary agreement negotiated in 1949 and hence is unwilling to present the agreement for parliamentary ratification, although ratification would greatly increase foreign exchange available to Iran. He has made drastic changes in the Seven Year Plan Organization which will further delay implementation of the development program. Consideration of an Import-Export Bank loan of \$25 million and a US-sponsored International Bank loan of \$7-15 million is being held up by convertibility problems relating to amortization and interest payments.

Meanwhile, there are serious signs of weakness in the Iranian economy: stagnant industry and trade; growing unemployment; a heavily unfavorable balance of trade; and increasingly unfavorable balance of payments. Although these ills are not easily cured, steps to implement the economic development program should in time alleviate each one of them. With prompt foreign assistance, progress on the development program will proceed. Without assistance, Iran's economic difficulties will grow in magnitude, internal instability will increase, and the opportunities for Soviet exploitation will multiply. If the Razmara Cabinet should fall, the new government would almost certainly be less capable of dealing with internal problems and less able to resist Soviet pressure.

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